

FINANCIAL CONDITION OF THE GOVERNMENT

Sale of Panama Canal Bonds Shows Credit of United States to be Better Than That of Any Other Government

President Taft Makes Numerous Recommendations in Message to Congress, Including Currency Reform, National Reserve Association and Rural Parcel Post—Favors Remitting Panama Canal Tolls on American Ships—Advocates Continuance of Policy of Building Two Battleships a Year—Calls Attention to Economy Practiced in Several Departments.

To the Senate and House of Representatives:

The financial condition of the government as shown at the close of the last fiscal year, June 30, 1911, was very satisfactory. The ordinary receipts into the general fund, excluding postal revenues, amounted to \$701,372,874.90, and the disbursements from the general fund for current expenses and capital outlays, excluding postal and Panama canal disbursements, including the interest on the public debt, amounted to \$624,137,907.89, leaving a surplus of \$77,234,967.01.

The postal revenue receipts amounted to \$237,879,823.60, while the payments made for the postal service from the postal revenues amounted to \$237,000,705.48, which left a surplus of postal receipts over disbursements of \$879,118.12, the first time in twenty-seven years in which a surplus occurred.

The interest bearing debt of the United States June 30, 1911, amounted to \$1,533,333,190. The debt on which interest had ceased amounted to \$1,879,850.25, and the debt bearing no interest, including greenbacks, national banknotes to be redeemed and fractional currency, amounted to \$386,701,917.43, or a total of interest and noninterest bearing debt amounting to \$1,920,084,067.68.

The actual disbursements, exclusive of those for the Panama canal and for the postal service for the year ending June 30, 1911, were \$554,157,907.89. The actual disbursements for the year ending June 30, 1910, exclusive of the Panama canal and the postal service disbursements, were \$559,705,391.08, making a decrease of \$5,547,483.19 in yearly expenditures in the year 1911 under that of 1910. For the year ending June 30, 1912, the estimated receipts, exclusive of the postal revenues, are \$696,000,000, while the total estimates, exclusive of those for the Panama canal and the postal expenditures payable from the postal revenues, amount to \$645,842,796.34. This is a decrease in the 1912 estimates from that of the 1911 estimates of \$1,084,307.22.

For the year ending June 30, 1913, the estimated receipts, exclusive of the postal revenues, are \$697,000,000, while the total estimated appropriations, exclusive of the Panama canal and postal disbursements payable from postal revenues, will amount to \$637,920,803.25. This is a decrease in the 1913 estimates from that of the 1912 estimates of \$7,219,955.90.

As to the postal revenues, the expansion of the business in that department, the normal increase in the postoffice and the extension of the service will increase the output to the sum of \$260,068,446, but as the department was self-sustaining this year the postmaster general is assured that next year the receipts will at least equal the expenditures and probably exceed them by more than the surplus of this year.

The Credit of the United States. The credit of this government was shown to be better than that of any other government by the sale of the Panama canal 3 per cent bonds. These bonds did not give their owners the privilege of using them as a basis for banknote circulation, nor was there any other privilege extended to them which would affect their general market value. Their sale, therefore, measured the credit of the government. The premium which was realized upon the bonds made the actual interest rate of the transaction 2.909 per cent.

In the treasury department the efficiency and economy work has been kept steadily up. Provision is made for the elimination of 184 positions during the coming year. Two hundred and sixty-seven statutory positions were eliminated during the last year in the office of the treasury in Washington and 141 positions in the year 1910, making an elimination of 542 statutory positions since March 4, 1909, and this has been done without the discharge of anybody, because the normal resignations and deaths have been equal to the elimination of the places, a system of transfers having taken care of the persons whose positions were dropped out. In the field service of the department, too, 1,239 positions have been eliminated down to the present time, making a total net reduction of all treasury positions to the number of 1,801. Meantime the efficiency of the work of the department has increased.

Monetary Reform. A matter of first importance that will come before congress for action at this session is monetary reform. The congress has itself arranged an early introduction of this great question through the report of its monetary commission. This commission was appointed to recommend a solution of the banking and currency problems so long confronting the nation and to furnish the facts and data necessary to enable the congress to take action.

In order to do its work with thoroughness and precision this commis-

sion has taken some time to make its report. The country is undoubtedly hoping for as prompt action on the report as the convenience of the congress can permit. The recognition of the gross imperfections and marked inadequacy of our banking and currency system even in our most quiet financial periods is of long standing, and later there has matured a recognition of the fact that our system is responsible for the extraordinary devastation, waste and business paralysis of our recurring periods of panic. Though the members of the monetary commission have for a considerable time been working in the open and while large numbers of the people have been openly working with them and while the press has largely noted and discussed this work as it has proceeded so that the report of the commission promises to represent a national movement, the details of the report are still being considered. I can not therefore do much more at this time than commend the immense importance of monetary reform, urge prompt consideration and action when the commission's report is received and express my satisfaction that the plan to be proposed promises to embrace main features that, having met the approval of a great preponderance of the practical and professional opinion of the country, are likely to meet equal approval in congress.

It is exceedingly fortunate that the wise and undisputed policy of maintaining unchanged the main features of our banking system rendered it at once impossible to introduce a central bank, for a central bank would certainly have been resisted, and a plan into which it could have been introduced would probably have been defeated. But as a central bank could not be a part of the only plan discussed or considered that troublesome question is eliminated. And, ingenious and novel as the proposed national reserve association appears, it simply is a logical outgrowth of what is best in our present system and is, in fact, the fulfillment of that system.

Exactly how the management of that association should be organized is a question still open. It seems to be desirable that the banks which would own the association should in the main manage it. It will be an agency of the banks to act for them, and they can be trusted better than anybody else chiefly to conduct it. It is mainly bankers' work. But there must be some form of government supervision and ultimate control, and I favor a reasonable representation of the government in the management. I entertain no fear of the introduction of politics or of any undesirable influence from a properly measured government representation.

I trust that all banks of the country possessing the requisite standards will be placed upon a footing of perfect equality of opportunity. Both the national system and the state system should be fairly recognized, leaving them eventually to coalesce if that shall prove to be their tendency. But such evolution cannot develop impartially if the banks of one system are given or permitted any advantages of opportunity over those of the other system. And I trust also that the new legislation will carefully and completely protect and assure the individual and the independence of each bank to the end that any tendency there may ever be toward a consolidation of the money or banking power of the nation shall be defeated.

It will always be possible, of course, to correct any features of the new law which may in practice prove to be unwise, so that, while this law is sure to be enacted under conditions of unusual knowledge and authority, it also will include, it is well to remember, the possibility of future amendment.

With the present prospects of this long awaited reform encouraging us, it would be singularly unfortunate if this monetary question should by any chance become a party issue. And I sincerely hope it will not. The exceedingly amount of consideration it has received from the people of the nation has been wholly nonpartisan, and the congress act its nonpartisan seal upon it when the monetary commission was appointed. In commending the question to the favorable consideration of congress I speak for and in the spirit of the great number of my fellow citizens who without any thought of party or partisanship feel with remarkable earnestness that this reform is necessary to the interests of all the people.

The War Department. There is now before congress a bill the purpose of which is to increase the efficiency and decrease the expense of the army. It contains four principal features—first, a consolidation of the general staff with the adjutant general's and the inspector general's departments; second, a consolidation of the quartermaster's department with the subsistence and the pay departments; third, the creation of an army service corps, and, fourth, an extension of the enlistment period from three to five years.

With the establishment of an army service corps, as proposed in the bill,

I am thoroughly in accord and am convinced that the establishment of such a corps will result in a material economy and a very great increase of efficiency in the army. It has repeatedly been recommended by me and my predecessors. I also believe that a consolidation of the staff corps can be

made with resulting increase in efficiency and economy, but not along the lines provided in the bill under consideration.

I am opposed to any plan the result of which would be to break up or interfere with the essential principles of the detail system in the staff corps established by the act of Feb. 2, 1901, and I am opposed to any plan the result of which would be to give to the officer selected as chief of staff or to any other member of the general staff corps greater permanency of office than he now has.

In making the consolidations no reduction should be made in the total number of officers of the army, of whom there are now too few to perform the duties imposed by law. I have in the past recommended an increase in the number of officers by 600 in order to provide sufficient officers to perform all classes of staff duty and to reduce the number of line officers detached from their commands. Congress at the last session increased the total number of officers by 200, but this is not enough. Promotion in the line of the army is too slow. Officers do not attain command rank at an age early enough properly to exercise it.

Another feature of the bill which I believe to be a mistake is the proposed increase in the term of enlistment from three to five years. I believe it would be better to enlist men for six years, release them at the end of three years from active service and put them in reserve for the remaining three years. Re-enlistments should be largely confined to the noncommissioned officers and other enlisted men in the skilled grades.

The army of the United States is in good condition. It showed itself able to meet an emergency in the successful mobilization of an army division of from 15,000 to 20,000 men, which took place along the border of Mexico during the recent disturbances in that country. The marvelous freedom from the ordinary camp diseases of typhoid fever and measles is referred to in the report of the secretary of war and shows an effectiveness in the sanitary regulations and treatment of the medical corps and in the discipline of the army itself as to invoke the highest commendation.

I beg to renew my recommendation of last year that the congress appropriate for a memorial amphitheater at Arlington, Va., the funds required to construct it upon the plans already approved.

The Panama Canal. The very satisfactory progress made on the Panama canal last year has continued, and there is every reason to believe that the canal will be completed as early as the first of July 1913, unless something unforeseen occurs. This is about eighteen months before the time promised by the engineers.

We are now near enough the completion of the canal to make it imperative necessary that legislation should be enacted to fix the method by which the canal shall be maintained and controlled and the zone governed. The fact is that today there is no statutory law by authority of which the president is maintaining the government of the zone. Such authority was given in an amendment by the Spooner act, which expired by the terms of its own limitation some years ago.

I fully concur with the secretary of war that the problem is simply the management of a great public work and that the government of a local republic; that every provision must be directed toward the successful maintenance of the canal as an avenue of commerce and that all provisions for the government of those who live within the zone should be subordinate to the main purpose.

The zone is forty miles long and ten miles wide. Now it has a population of 50,000 or 60,000, but as soon as the work of construction is completed the towns which make up this population will be deserted and only comparatively few natives will continue their residence there. The control of them ought to approximate a military government. One judge and two justices of the peace will be sufficient to attend to all the judicial and litigated business there is.

Furnishing Supplies and Repairs.

In my last annual message I discussed at length the reasons for the government's assuming the task of furnishing to all ships that use the canal, whether our own naval vessels or others, the supplies of coal and oil and other necessities with which they must be replenished either before or after passing through the canal, together with the dock facilities and repairs of every character. This it is thought wise to do through the government, because the government must establish for itself for its own naval vessels large depots and dry docks and warehouses, and these may easily be enlarged so as to secure to the world public using the canal reasonable prices and a certainty that there will be no discrimination between those who wish to avail themselves of such facilities.

Tolls.

I renew my recommendation with respect to the tolls of the canal that within limits which shall seem wise to congress the power of fixing tolls be given to the president. In order to arrive at a proper conclusion there must be some experimenting, and this

cannot be done if congress does not delegate the power to one who can act expeditiously.

I am very confident that the United States has the power to relieve from the payment of tolls any part of our shipping that congress deems wise. We own the canal. It was our money that built it. We have the right to charge tolls for its use. Those tolls must be the same to every one, but when we are dealing with our own

ships the practice of many governments of subsidizing their own merchant vessels is so well established in general that a subsidy equal to the tolls, an equivalent remission of tolls, cannot be held to be a discrimination in the use of the canal. The practice in the Suez canal makes this clear. The experiment in tolls to be made by the president would doubtless disclose how great a burden of tolls the coastwise trade between the Atlantic and the Pacific coast could bear without preventing its usefulness in competition with the transcontinental railroads. One of the chief reasons for building the canal was to set up this competition and to bring the two shores closer together as a practical trade problem.

The Philippine Islands.

In respect to the Philippines, I urgently join in the recommendation of the secretary of war that the act of Feb. 6, 1905, limiting the indebtedness that may be incurred by the Philippine government for the construction of public works, be increased from \$5,000,000 to \$15,000,000. The finances of that government are in excellent condition. The maximum sum mentioned is quite low as compared with the amount of indebtedness of other governments with similar resources, and the success which has attended the expenditure of the \$5,000,000 in the useful improvements of the harbor and other places in the islands justifies and requires additional expenditures for like purposes.

I also join in the recommendation that the legislature of the Philippine Islands be authorized to provide for the naturalization of Filipinos and others who by the present law are treated as aliens, so as to enable them to become citizens of the Philippine Islands.

Pending an investigation by congress at its last session through one of its committees into the disposition of the friars' lands Secretary Dickinson directed that the friars' lands should not be sold in excess of the limits fixed for the public lands until congress should pass upon the subject or should have concluded its investigation. This order has been an obstruction to the disposition of the lands, and I expect to direct the secretary of war to return to the practice under the opinion of the attorney general which will enable us to dispose of the lands much more promptly and to prepare a sinking fund with which to meet the \$7,000,000 of bonds issued for the purchase of the lands.

Rivers and Harbors.

The estimates for the river and harbor improvements reach \$32,000,000 for the coming year. I wish to urge that whenever a project has been adopted by congress as one to be completed the more money which can be economically expended in its construction in each year the greater the ultimate economy. This has especial application to the improvement of the Mississippi river and its large branches. It seems to me that a large sum in the amount of money now being annually expended in the improvement of the Ohio river which has been formally adopted by congress would be in the interest of the public. A similar change ought to be made during the present congress in the amount to be appropriated for the Missouri river. The engineers say that the cost of the improvement of the Missouri river from Kansas City to St. Louis in order to secure six feet as a permanent channel will reach \$20,000,000. There has been a great deal of money recommended from the chief of engineers that if the improvement be adopted \$20,000,000 should be expended upon it annually. I urgently recommend that the appropriation for this improvement be increased from \$600,000, as recommended now in the completion of a contract to \$2,000,000 annually so that the work may be done in ten years.

Waterway From the Lakes to the Gulf.

The project for a navigable waterway from Lake Michigan to the mouth of the Illinois river and thence via the Mississippi to the gulf of Mexico is one of national importance. A view of the work already accomplished by the sanitary district of Chicago, an agency of the state of Illinois, which has constructed the most difficult and costly stretch of this waterway and made it an asset of the nation, and in view of the fact that the people of Illinois have authorized the expenditure of \$20,000,000 to carry this waterway sixty-two miles farther to Utica, I feel that it is fitting that this work should be supplemented by the government, and that the expenditures recommended by the special board of engineers on the waterway from Utica to the mouth of the Illinois river be made upon lines which, while providing a waterway for the nation, should otherwise benefit that state to the fullest extent. I recommend that the term of service of said special board of engineers be continued and that it be empowered to reopen the question of the treatment of the lower Illinois river.

The Department of Justice.

The report of the attorney general shows that he has subjected to close examination the accounts of the clerks of the federal courts, that he has found a good many which disclose irregularities or dishonesty, but that he has had considerable difficulty in securing an effective prosecution or removal of the clerks thus delinquent. I am certainly not unduly prejudiced against the federal courts, but the fact is that the long and confidential relations which grow out of the tenure for life on the part of the judge and the practical tenure for life on the part of the clerk are not calculated to secure the strictness of dealing by the judge with the

clerk in respect to his fees and accounts which assures in the clerk's conduct a freedom from overcharges and carelessness. For this reason I

recommend an amendment to the law whereby the president shall be given power to remove the clerks for cause. This provision need not interfere with the right of the judge to appoint his clerks or to remove him.

In my last message I recommended to congress that it authorize the payment of the findings or judgments of the court of claims in the matter of the French spoliation cases. There has been no appropriation to pay these judgments since 1905.

Employers' Liability.

The limitation of the liability of the master to his servant for personal injuries to such as are occasioned by his fault has been abandoned in most civilized countries and provision made whereby the employee injured in the course of his employment is compensated for his loss of working ability irrespective of negligence. The principle upon which such provision proceeds is that accidental injuries to workmen in modern industry, with its vast complexity and inherent dangers arising from complicated machinery and the use of the great forces of steam and electricity, should be regarded as risks of the industry and the loss borne in some equitable proportion by those who for their own profit engage therein. In recognition of this the congress authorized the appointment of a commission to investigate the subject of employers' liability and workmen's compensation and to report the result of its investigations through the president to congress. This commission was appointed and has been at work holding hearings, gathering data and considering the subject and it is expected will be able to report by the first of the year in accordance with the provisions of the law.

In promotion of the movement for the prevention of delay and unnecessary cost in litigation I am glad to say that the supreme court has taken steps to reform the present equity rules of the federal courts and that we may in the near future expect a revision of them which will be a long step in the right direction.

Postoffice.

At the beginning of the present administration in 1909 the postal service was in arrears to the extent of \$17,479,704.47. It was very much the largest deficit on record. In the brief space of two years this has been turned into a surplus of \$220,000, which has been accomplished without curtailment of the postal facilities, as may be seen by the fact that there have been established 3,744 new post-offices, delivery by carrier has been added to the service in 186 cities, 2,514 new rural routes have been established, covering 60,000 miles; the force of postal employees has been increased in these two years by more than 8,000, and the average annual salary has had a substantial increase.

On Jan. 3, 1911, postal savings depositories were established experimentally in forty-eight states and territories. After three months' successful operation the system was extended as rapidly as feasible to the 7,500 postoffices of the first, second and third classes constituting the presidential grade. By the end of the year practically all of them will have been designated, and then the system will be extended to all fourth class postoffices doing a money order business.

In selecting postoffices for depositories consideration was given to the efficiency of the postmasters, and only those offices where the ratings were satisfactory to the department have been designated. Withholding designation from postmasters with unsatisfactory ratings has had a salutary effect on the service.

The depositories have kept pace with the extension of the system. Amounting to only \$90,052 at the end of the first month's operation in the experimental offices, they increased to \$670,310 by July and now after eleven months of operation have reached a total of \$1,100,000. This sum is distributed among 2,710 banks and protected under the law by bonds deposited with the treasurer of the United States.

The depositories thus far number approximately 150,000. They include forty nationalities, native Americans, largely predominating and English and Italians coming next.

The first conversion of deposits into United States bonds bearing interest at the rate of 2½ per cent occurred on July 1, 1911, the amount of deposits exchanged being \$41,900, or a little more than 6 per cent of the total outstanding certificates of deposit on June 30. Of this issue bonds to the value of \$3,120 were in coupon form and \$35,780 in registered form.

Parcel Post.

Steps should be taken immediately for the establishment of a rural parcel post. In the estimates of appropriations needed for the maintenance of the postal service for the ensuing fiscal year an item of \$150,000 has been inserted to cover the preliminary expense of establishing a parcel post on rural mail routes as well as to cover an investigation having for its object the final establishment of a general parcel post on all railway and steamboat transportation routes. The department believes that after the initial expense of establishing the system are defrayed and the parcel post is in full operation on the rural routes it will not only bring in sufficient revenue to meet its cost, but also a surplus that can be utilized in paying the expenses of a parcel post in the city delivery service.

It is hoped that congress will authorize the immediate establishment of a limited parcel post on such rural routes as may be selected providing for the delivery along the routes of parcels not exceeding eleven pounds.

The suggestion that we have a general parcel post has awakened great opposition on the part of some who think that it will have the effect to destroy the business of the country



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Stover's... I think the change will greatly increase business for the benefit of all. The reduction in the cost of living it will bring about ought to make its coming certain.

The Navy Department.

On the 23d of November last I reviewed the fighting fleet of battleships and other vessels assembled in New York harbor, consisting of twenty-four battleships, two armored cruisers, two cruisers, twenty-two destroyers, twelve torpedo boats, eight submarines and other attendant vessels, making ninety-eight vessels of all classes of a tonnage of 576,634 tons. Those who saw the fleet were struck with its preparedness and with its high military efficiency. All Americans should be proud of its personnel.

The fleet was deficient in the number of torpedo destroyers, in cruisers and in colliers as well as in large battleship cruisers. The building plan for this year contemplates two battleships and two colliers. This is because the other and smaller vessels can be built much more rapidly in case of emergency than the battleships, and we certainly ought to continue the policy of two battleships a year until after the Panama canal is finished and until in our first line and in our reserve line we can number forty available vessels of proper armament and size.

The reorganization of the navy and the appointment of four aids to the secretary have continued to demonstrate their usefulness.

It is certain that the navy with its present size should have admirals in active command higher than rear admirals. Our great battleship fleet is commanded by a rear admiral, with four other rear admirals under his orders. This is not as it should be, and when questions of precedence arise between our naval officers and those of European navies the American rear admiral, though in command of ten times the force of a foreign vice admiral, must yield precedence to the latter. Such an absurdity ought not to prevail, and it can be avoided by the creation of two or three positions of flag rank above that of rear admiral.

I attended the opening of the new training school at North Chicago, Ill., and am glad to note the opportunity which this gives for drawing upon young men of the country from the interior, from farms, stores, shops and offices, which insures a high average of intelligence and character among them and which they showed in the very wonderful improvement in discipline and drill which only a few short weeks' presence at the naval station had made.

I urge upon congress the necessity for an immediate increase of 2,000 men in the enlisted strength of the navy, provided for in the estimates. Four thousand more are now needed to man all the available vessels. There are in the service today about 47,750 enlisted men of all ratings. Civilian computation shows that in April, 1912, 49,103 men will be required for vessels in commission, and 3,000 apprentice seamen should be kept under training at all times.

The secretary of the navy has recommended the abolition of certain of the smaller and unnecessary navy yards and in order to furnish a complete and comprehensive report has referred the question of all navy yards to the joint board of the army and navy. This board will shortly make its report, and the secretary of the navy advises me that his recommendations on the subject will be presented

early in the coming year. * * * For the consideration of matters which are pending or have been disposed of in the agricultural department and in the department of commerce and labor I refer to the very excellent reports of the secretaries of those departments.

[The president promises later messages on conservation in Alaska, second class mail rates and economy and efficiency in the departments. He also approves pensions for retired government employees, but thinks the employees themselves should contribute to the pension fund.]

Eliminate Local Offices From Politics.

I wish to renew again my recommendation that all the local offices throughout the country, including collectors of internal revenue, collectors of customs, postmasters of all four classes, immigration commissioners and marshals, should be by law covered into the classified service, the necessity for confirmation by the senate be removed and the president and the others whose time is now taken up in distributing this patronage under the custom that has prevailed since the beginning of the government, in accordance with the recommendation of the senators and congressmen of the majority party, should be relieved from this burden. I am confident that such a change would greatly reduce the cost of administering the government and that it would add greatly to its efficiency. It would take away the power to use the patronage of the government for political purposes. When officers are recommended by senators and congressmen from political motives and for political services rendered it is impossible to expect that while in office the appointees will not regard their tenure as more or less dependent upon continued political service for their patrons, and no regulations, however stiff or rigid, will prevent this, because such regulations, in view of the method and motive for selection, are plainly inconsistent and deemed hardly worthy of respect.

WM. H. TAFT.
The White House, Dec. 21, 1911.

Very "Respectful."

The villagers used to make love in a solid, staid fashion. "I'm sure, ma'am," said a servant to her mistress, "nobody could have had a more respectable young man nor what Thomas has been to me. We've been courting two years come Martlemass, and he's never yet offered to kiss me!"—From "Recollections of a Yorkshire Village," by J. S. Fletcher.

A Similarity.

"He's quite wealthy and prominent now," said Mrs. Stavrum, "and they say he rose from nothing."
"Well, well!" remarked Mr. Border. "That's just what I rose from—at the breakfast table this morning."

Closing the Incident.

Palatilla—Your latest young man, I hear, has written a play or two. Has he produced anything yet? Euphorbia—Y-yes; the last time he called he produced a diamond ring.—Exchange.

The greatest homage we can pay to truth is to use it.—Emerson.

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